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IN THE

Supreme Court of the United States

OCTOBER TERM, 1966.

No. ~~1094~~ 212

WALKER PROCESS EQUIPMENT, INC.,
Petitioner,

vs.

FMC CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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vs.

FMC CORPORATION,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered in the above-entitled case on January 20, 1966, a rehearing of which was denied on March 10, 1966.

OPINIONS BELOW.

The district court gave an oral opinion not officially reported. The transcript of this opinion is included in the appendix attached hereto (App. 24). The court of appeals, in a split decision, affirmed the order of the district court. The opinion of the majority, as well as the dissenting opin-

ion, is reported at 356 F. 2d 449 (7th Cir. 1966) and 148 U. S. P. Q. 308.

JURISDICTION.

This is a suit arising under Title 28, Section 2201 of the United States Code (App. 15). The date of the judgment, which Petitioner seeks to have reviewed, is January 20, 1966. A petition for rehearing was denied by a two to one majority on March 10, 1966 (App. 24). The jurisdiction of this Court is invoked under Title 28, Section 1254(1) of the United States Code.

QUESTIONS PRESENTED.

1. Did the majority of the Court of Appeals for the Seventh Circuit err in holding as a matter of law that the amended complaint contained no viable charge of infringement sufficient to create an actual controversy to support a declaratory judgment suit, despite the express allegations made in the complaint, as exemplified by paragraph 16, which states:

> "Since the opinion of the Court of Appeals for the Fourth Circuit in *F. M. C. Corporation* v. *City of Greensboro,* 326 F. 2d 581, the defendant [respondent FMC] has continued to charge that use of plaintiff's [petitioner Walker] "Gaslifter" digester stirring equipment infringes said Letters No. 2,777,815. . . ."

2. If a process patentee, who sells unpatented equipment, harasses a competing equipment manufacturer by coercing municipal customers of the manufacturer, through subtle threats of infringement, either to refrain from purchasing the manufacturer's equipment or to demand indemnity against infringement, is it necessary to also have an "actual", "outstanding" or "viable" charge of infringement against the manufacturer or its customer to

establish a justiciable controversy between the manufacturer and the patentee?

3. Does a justiciable controversy exist between a patentee and a competing equipment manufacturer who was accused of inducing infringement of the patent in previous litigation between the patentee and a third person, which charges against the manufacturer were unresolved, and who, in order to obtain sales of its equipment, is required to indemnify its customers, at least some of whom practice the allegedly infringing process, against infringement of the patent?

STATEMENT OF THE CASE.

Walker and FMC are manufacturers of competing equipment for use in sewage sludge digestion. FMC is the owner of a United States patent to Forrest, No. 2,777,815, relating to a process for digesting sewage sludge. Walker manufactures and sells a "Gaslifter" stirrer which can be used in a manner which allegedly infringes the Forrest process patent.

Prior to this action, FMC had sued Walker and its customer, Greensboro, North Carolina, charging the city of Greensboro with infringement of the Forrest patent and *charging Walker with infringement by actively inducing infringement of the patent.* Walker was dismissed because it was not subject to venue in North Carolina. Walker defended that action because of an indemnity agreement it had with Greensboro. In September, 1962 the district court held the Forrest patent valid and infringed, 208 F. Supp. 494 (D. C. N. C. 1962).

While an appeal of the *Greensboro* suit was pending before the Court of Appeals for the Fourth Circuit, FMC sent to the trade letters and communications of such an

intimidating character that prospective customers refused to buy Walker's equipment "due to the possible patent infringement of the Walker Process . . ." (P. App.* 16) and fear of suit by FMC (P. App. 13, 14, 16-20). In some instances, as pleaded in the complaint in the instant suit, Walker was specifically required to agree to indemnify its customers against patent infringement of the Forrest patent (P. App. 3, Para. 7).

The court of appeals in the *Greensboro* suit reversed the trial court and held that the specific process used by Greensboro did not infringe the FMC patent, 326 F. 2d 581 (1964). Shortly thereafter, Walker initiated a declaratory judgment action under 28 U. S. C. § 2201 in the Northern District of Illinois challenging the Forrest patent. Walker's position was that the charge made by FMC against Walker in Greensboro, i.e., where a process performed by a Walker "Gaslifter" unit is accused of infringement, Walker is equally chargeable for "inducement to infringe", had never been resolved since Walker was not a party to that suit. Furthermore, the question of validity of the Forrest patent was still undecided since the court of appeals expressly refrained from considering its validity, 326 F. 2d at 581. The Greensboro litigation resolved only that Greensboro's specific process departed from the Forrest patent. FMC acknowledged this fact in a letter which it sent to consulting engineers for sewage treatment plants shortly after the Court of Appeals' decision (P. App. 9).

The amended complaint,** considered by the court below, alleges in part:

FMC offers licenses at a substantial royalty under its

* The appendix included herein will be referred to as (App. ....); the appendix of plaintiff-petitioner in the court below will be referred to as (P. App. ....).

** Walker filed an amended complaint pursuant to FRCP 15(a).

patent to customers and prospective customers of Walker, informing such customers that it is unsafe for them not to be free to practice the process of the Forrest patent (P. App. 2, Para. 5).

The amended complaint further recites that immediately after the *Greensboro* decision FMC circulated a letter (P. App. 9) to consulting engineers engaged in the design and construction of sewage treatment plants, said letter implying that the district court's holding of validity of the Forrest patent was unaffected by the decision of the court of appeals. These engineers were also advised the Greensboro decision was limited to the specific process employed by the City of Greensboro. The trade was further advised FMC would continue its licensing program (P. App. 4, Para. 13).

While both courts in the Greensboro litigation indicated that a particular type of process does not infringe the FMC patent, FMC's activities have been such as to create doubts as to what operations are free from infringement of the Forrest patent (P. App. 5, Para. 14, 15).

As a result of these and other acts of FMC, some prospective customers of Walker refuse to purchase Walker's equipment for fear of being involved in a patent suit instituted by FMC (P. App. 3, Para. 6).

In almost every sale of Walker's "Gaslifter" digester stirrers, Walker has been required to issue "hold harmless" agreements to its vendees (P. App. 3, Para. 6). Moreover, due to FMC's conduct, Walker has been required to issue hold harmless agreements against patent suits to contractors installing Walker's equipment (P. App. 3, Para. 7).

REASONS FOR GRANTING THE WRIT.

I. Contrary to the Opinion of the Majority, Walker's Complaint Expressly Sets Forth a Direct or Outstanding Charge of Infringement Which Creates a Justiciable Controversy.

The majority opinion, although acknowledging Walker was an interested party, stated explicitly that:

> "In view of the fact that there are no outstanding charges by FMC of infringement *by Walker or Walker's customers,* there is no justiciable controversy between the parties." (Emphasis added.) (App. 19.)

Further, the majority opinion concluded that:

> ". . . Walker's amended complaint . . . does not allege that FMC has charged *Walker* or *any of Walker's customers,* at any time since the Greensboro litigation, with any kind of infringement. . . ." (Emphasis added.) (App. 17-8.)

However, as correctly pointed out in the dissenting opinion, such a charge was, in fact, made in paragraph 16 of the amended complaint which states in part:

> "Since the opinion of the Court of Appeals for the Fourth Circuit in *F. M. C. Corporation* v. *City of Greensboro,* 326 F. 2d 851, the *defendant* [*respondent FMC*] *has continued to charge that use of plaintiff's* [*Petitioner Walker*] *"Gaslifter" digester stirring equipment infringes said Letters No. 2,777,815. . . .*" (Emphasis added.) (App. 21.)

F. R. C. P. 57 dictates that the procedure for obtaining a declaratory judgment "shall be in accordance with these rules. . . ." Certainly, the Federal Rules of Civil Procedure do not require, and even discourage, the pleading of detailed facts. This Court stated in *Conley* v. *Gibson,* 355 U. S. 41, 47 (1957):

> "". . . the Federal Rules of Civil Procedure do not re-

quire a claimant to set out in detail the facts upon which he bases his claim. To the contrary, all the Rules require is 'a short and plain statement of the claim' that will give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests. . . ."

Paragraph 16 of petitioner's complaint expressly alleges a direct charge of infringement which is all that a declaratory judgment complaint is required to do. Going beyond such a pleading to show inability to prove such an allegation goes into a matter of evidence and not of pleading, 355 U. S. at 47-8.

II. The Court Erred in Applying the Rigorous Requirement That There Must Be an Actual, Outstanding or Viable Charge of Infringement by a Patentee in Order to Raise a Justiciable Controversy.

FMC is the owner of a "process" patent. It does not practice the process itself but rather, like Walker its competitor, manufactures and sells equipment which can be used in the process claimed in the Forrest patent. The practitioners of the process are municipalities or the like who furnish a service to the public and it is these users who have been recipients of FMC's letters and communications to the field which hedge on expressly charging anyone with infringement (P. App. 9) but rather recite that FMC is actively carrying out a licensing program relating to the Forrest patent. The obvious effect of FMC's campaign is that FMC can use its patent to harass an industry to such an extent that municipalities and others are afraid to buy Walker's equipment for fear FMC will sue them as a retaliatory measure. Moreover, FMC in using its patent as an economic, as well as a legal, weapon is able to sit back and pile up potential damages against the day when it may fit FMC's purposes to actually charge Walker or

someone else with infringement or inducement to infringe. Until that day arrives, FMC can, according to the rule of the court of appeals below, safely wield its economic club so long as it makes no "actual," "outstanding" or "viable" charge of infringement.

It is recognized by the courts that, by craftily phrasing the contents of letters or notices sent by patentees, direct and formal charges of infringement can be avoided. *King Kup Candies, Inc.* v. *H. B. Reese Candy Co.*, 134 F. Supp. 463, 466-67 (M. D. Pa. 1955). Thus, where the activities of the recipient of the letter or notice raise a reasonable doubt whether or not the patentee's patent is infringed, the effect of such letters or notices is to cause the recipient to either affiliate with patentee, on the terms dictated by the patentee, or be sued. To deny that a justiciable controversy exists simply because no direct charge of infringement has been made by the patentee "is to ignore the realities of business life." See 6 Moore, Federal Practice § 57.20 at 3121 (2d ed. 1965).

The courts, in accepting the spirit of the Declaratory Judgment Act, have held that:

> "In order to seek declaratory judgment relief as to the validity of a patent, the claim against plaintiff need not be formally asserted; furthermore, it is not necessary that notice be given directly to the plaintiff or that any threat be made to sue the plaintiff." *Rhodes Pharmacal Co.* v. *Dolcin Corp.*, 91 F. Supp. 87, 88 (S. D. N. Y. 1950), citing *Aralac, Inc.* v. *Hat Corp. of America*, 166 F. 2d 286, 292 (3d Cir. 1948).

In view of this, it is evident the Court of Appeals for the Seventh Circuit erroneously applied the *Aralac* case, supra, in holding there was no justiciable controversy "in view of the fact that there are no outstanding charges by FMC of infringement by Walker or Walker's customers. . . ." Courts have held repeatedly that no "actual",

"outstanding" or "viable" charge of infringement need be made by a patentee in order for a party to maintain a declaratory judgment action. For example, see *Dewey & Almy Chem. Co.* v. *American Anode, Inc.*, 137 F. 2d 68, 70 (3d Cir. 1943), cert. denied, 320 U. S. 761, 88 L. Ed. 454; *Millway Knitting Mills, Inc.* v. *Sanson Hosiery Mills, Inc.*, 108 F. Supp. 5 (E. D. Pa. 1952); *Girdler Corp.* v. *E. I. DuPont De Nemours & Co.*, 56 F. Supp. 871, 875 (D. Del. 1944).

The court of appeals used the expressions "no outstanding charges of infringement" and "no viable charge of infringement" in its opinion. These expressions, apparently synonymous with "no direct charge", reflect an improper approach by the court below as to the proper use of the Declaratory Judgment Act by patent litigants.

The inevitable result of such a rigorous requirement as laid out by the court below is to put the petitioner, Walker, at the mercy of "in terrorem" activities by FMC who can initiate piecemeal litigation against a series of selected customers of Walker. By making a direct charge of infringement against only one customer at a time, a declaratory judgment action could be sustained only by the particular customer accused. Even if the first declaratory judgment suit is decided adversely to FMC, it could sue another one of Walker's customers for infringement (while spreading the news to keep all of Walker's customers and potential customers aware that they may be the next to be sued).

If FMC follows the formula, which the majority of the court of appeals seems to have approved, of carefully avoiding any express charges of infringement beyond the one customer sued, FMC can continue ad infinitum to hold all other Walker customers in fear of the FMC patent. Neither Walker nor any of its unsued customers will be able to maintain an action for declaratory judgment be-

cause there still will be no "viable charge of infringement" against them.

Even though each Walker customer to be sued obtains an adjudication of noninfringement in the same manner as did the City of Greensboro, the untouchable "in terrorem" tactics of FMC can continue. An adjudication of invalidity of the FMC patent will not protect other Walker customers, unless and until it becomes established that, through Walker, they are entitled to res judicata or collateral estoppel status. Permitting FMC to harass Walker and its customers while hiding behind the skirts of the majority ruling is such an intolerable use of the patent system that a doctrine tolerating it should not be permitted by this Court.

III. The Court Erred in Its Application of the Tests of Justiciable Controversy in Holding That Walker's Indemnification Obligations and Previous Charges Against Walker Arising Because of the Forrest Patent Were Not Sufficient to Permit It to Challenge the Patent.

The *Rhodes* case, supra, referring to the *Aralac* decision, held at page 88 that:

> "The test of a justiciable controversy is whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."

The various elements of the tests of what constitutes a justiciable controversy are established by the indemnity obligations Walker was required to give its customers as a result of FMC's letters and notices to the trade.

Walker sells its "Gaslifter" devices to customers who can operate the "Gaslifter" units to perform the allegedly

infringing process of the Forrest patent. Such a sale of Walker's "Gaslifter" equipment to the City of Greensboro has already given rise to this charge, which is unresolved as to the inducement aspect. Walker continues to sell its "Gaslifter" units, the design of which is substantially unchanged from those units sold to the City of Greensboro.

Sewage digestion equipment is not shelf merchandise like toothpaste or shaving cream. On the contrary, it is specialized equipment. The customers of Walker and FMC are sophisticated engineers or municipal officers who are familiar with the process of the Forrest patent and the operation of Walker's "Gaslifter" unit as well as the activities of others in the field of sewage treatment. Even assuming the communications and notices sent by FMC do not, on their face, constitute express threats by a patentee, it is perfectly clear that FMC has made manifest to the trade that FMC considers the use of Walker's "Gaslifter" device to be an infringement of the Forrest patent. This is shown by the fact that Walker has been required, because of fear of suit by its customers, to agree to indemnify them against infringement of the Forrest patent.

Judge Leahy in the *Girdler* decision correctly pointed out the existence of a controversy in such a situation at 56 F. Supp. 875:

> "In the case at bar, plaintiff has a stronger position than a mere prospective manufacturer. It has sold a considerable quantity of machines which are planned to utilize defendant's process. In view of plaintiff's future prospects that it will obtain still more customers, defendant's asserted position with respect to the coverage of its claims in suit becomes the key to the problem. There are cases which hold that before declaratory judgment jurisdiction attaches defendant must have instituted a previous suit against a similarly situated declaratory judgment plaintiff or a customer, or a definite threat of suit against either, or the giving of a general notice to the trade. But

> this does not mean that these, and only these, factors or any one of them must be present. Where the patent owner makes his position clear with respect to a manufacturer's customer, the result is that the declaratory judgment plaintiff, as manufacturer, finds his competition threatened by such patent owner's assertions; and the other result is the customer's fear of suit against itself. When this happens, a real controversy exists over the scope of the patent as between the declaratory judgment plaintiff *vs.* the owner of the patent."

The allegations of the complaint relative to Walker's indemnity obligations arising from FMC's letters to the trade meet the requirement of a substantial controversy. The adverse legal interests* are seen in FMC's charge of inducement of infringement against Walker in the *Greensboro* case, an issue which is yet unresolved. The immediacy and reality requirements alluded to in *Rhodes* are met by the continual and ever present fear of Walker's customers that they will be sued and the fact that FMC has already initiated such an action in the *Greensboro* case.

Thus, the tests of a justiciable controversy as outlined in the *Rhodes* case and misapplied by the Court of Appeals for the Seventh Circuit are clearly met and Walker should be entitled to the opportunity to meet FMC directly in order that the creation of further economic waste can be avoided.

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* The holding by the court of appeals (App. 19-20) that Walker has an interest satisfies the requirement of the Declaratory Judgment Act (28 U. S. C. 2201) that the court has an obligation to "declare the rights and other legal interests of any *interested* party." (Emphasis added.)

IV. CONCLUSION.

FMC, respondent, has a method patent. Petitioner's complaint is that FMC has used that patent to terrorize municipalities and others so that some will not purchase sewage treatment equipment from petitioner, while those who do insist upon patent infringement indemnification from Walker.

The decision of the majority of the court below permits a patent owner to use its patent to eliminate all competition, without risking adjudication of its patent—so long as the patentee makes no express charges of infringement. This sanctuary is accomplished by subtly persuading prospective customers of a patent owner's competition that they could not operate safely except under license from the patent owner. This is the type of "in terrorem tactics" employed by respondent, FMC, and it is for the above-stated reasons that petitioner prays that a writ of certiorari be granted.

Respectfully submitted,

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APPENDIX.

Pertinent Statute Involved.

28 U. S. C. Section 2201.

§ 2201. *Creation of remedy.*

In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

IN THE UNITED STATES COURT OF APPEALS.
For the Seventh Circuit.

September Term, 1965—January Session, 1966.

No. 14880
WALKER PROCESS EQUIPMENT, INC., *Plaintiff-Appellant,*
v.
FMC CORPORATION, *Defendant-Appellee.*

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division

January 20, 1966.

Before HASTINGS, *Chief Judge,* and KILEY and SWYGERT, *Circuit Judges.*

HASTINGS, *Chief Judge.* This is an appeal by Walker Process Equipment, Inc. from an order of the United

States District Court for the Norther District of Illinois dismissing, for lack of jurisdiction because of the absence of an actual controversy, Walker's declaratory judgment action against the F.M.C. Corporation (FMC).[1] In its complaint, Walter sought to have a patent owned by FMC, U. S. Patent No. 2,777,815, entitled "Sewage Digestion Process", declared invalid, unenforceable, and not infringed by any use of Walker's digester stirrer equipment.

Walker manufactures and sells "Gaslifter" digester stirrers for use in sewage digestion processes in sewage treatment plants. FMC competes with Walker and is the owner of a patented process for the digestion of sewage sludge, which involves continuous gas recirculation to maintain homogeneous sludge. While Walker sells only equipment, it is possible for Walker's customers to use Walker's equipment in processes allegedly covered by FMC's process patent, although the Walker equipment need not be so used and has other uses.

Walker's amended complaint alleges that FMC attempts to persuade prospective customers of competing manufacturers that they should use FMC equipment in accordance with its patented process or that, if they use the equipment of a competing manufacturer, they should, in order to protect themselves against possible infringement, purchase a license to use the patented process from FMC.

It is further alleged that because of FMC's acts some of Walker's prospective customers have refused to pur-

1. "In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such." 28 U. S. C. A. § 2201.

chase Walker's equipment, while others demand, as a condition of purchase, that Walker furnish "hold harmless" guaranties to defend them against patent infringement actions.

Walker asserts that at least one of its customers, with which Walker has a patent suit indemnity agreement, has used, and is believed by Walker to continue to use, Walker's equipment in a process which apparently infringes the patent.

In May, 1960, FMC brought suit against Walker and one of its customers, the City of Greensboro, North Carolina, charging the City of Greensboro with infringement of FMC's patent and charging Walker with active inducement of infringement of the patent. Walker was dismissed from the suit on motion since it was not subject to process in North Carolina. Because of Walker's hold harmless agreement with Greensboro, however, Walker defended that action. The district court held that FMC's patent was valid and infringed,[2] but on appeal, the court of appeals reversed, holding that the process used by the City of Greensboro for the digestion of sludge did not infringe the patent. See *FMC Corporation* v. *City of Greensboro*, 4 Cir., 326 F. 2d 581 (1964).

On this appeal, Walker urges a number of grounds for reversal. Walker first contends that when a patent owner charges another with infringement through active inducement of infringement or contributory infringement, an actual controversy exists sufficient to support a suit under the Declaratory Judgment Act. While this proposition is true, it begs a fundamental question of this appeal: that is, whether the patent owner has, in this case, made viable charges of infringement.

A studied consideration of Walker's amended complaint

2. 208 F. Supp. 494 (1962).

has convinced us that the complaint does not allege that FMC has charged Walker or any of Walker's customers, at any time since the Greensboro litigation, with any kind of infringement. Whatever infringement charges were made in the Greensboro litigation were resolved, and the controversy between the parties terminated, by the judgment of the court of appeals.

Walker states, however, that even if the allegations it made respecting FMC's charges of active inducement of infringement and contributory infringement refer only to the Greensboro litigation, the charges created a legally cognizable controversy not terminated in that case, although the particular controversy in issue in that case was terminated. This is so, Walker asserts, because the same basis for the charges FMC made in the Greensboro litigation continues to exist. While it may be that the same basis for charges exists, it is certain, in view of our construction of Walker's complaint, that actual charges do not exist. Lacking actual charges, Walker's right to maintain a declaratory judgment action depends upon the meaning of the Declaratory Judgment Act.

The Declaratory Judgment Act created no new rights, but rather created a new remedy with which to adjudicate existing rights. *Aralac, Inc.* v. *Hat Corporation of America*, 3 Cir., 166 F. 2d 286, 291 (1948). With respect to the meaning and effect of the Act in relation to patents, we quote with approval the statement of the district court in this case:

> "Prior to the enactment of the Declaratory Judgment Act, a party accused of patent infringement was without a remedy to obtain a judicial determination of the merits of the accusation if the patentee refused to bring suit for the alleged infringement. An accused infringer could thus be made subject to harassment. The Declaratory Judgment Act eliminates this in-

equity. It enables the accused to secure a judicial determination of the charge of infringement without having to wait for the patentee to institute proceedings."

A leading case in point is *Aralac, Inc.* v. *Hat Corporation of America, supra. Aralac* precludes a declaratory judgment action against a patent owner unless the plaintiff is in fact accused of infringement by the patent owner. In view of the fact that there are no outstanding charges by FMC of infringement by Walker or Walker's customers, there is no justiciable controversy between the parties.

It is further urged, however, that a manufacturer whose interests in a controversy concerning a patent are limited to indemnity agreemnets with possible infringers and possible loss of business has standing to seek a declaratory judgment regarding the scope and validity of the patent.

In *Aralac, supra,* it was held that where the patent owner has not made a charge of infringement, direct or contributory, against a plaintiff-manufacturer, but rather has made a claim that purchasers of the plaintiff's product were infringing by using the process covered by defendant's patent, the plaintiff-manufacturer did not have a sufficient legal interest in any claim arising under the patent laws to enable it to challenge the defendant's patent by declaratory judgment. The plaintiff's interest was an economic interest not legally recognized.

It is true, as Walker argues, that in *Aralac* the plaintiff sold a product which was used by purchasers in the manufacture of a wholly new product, the manufacture of which involved the alleged use of a patented process. In the instant case, Walker's product itself may be used by purchasers in a manner allegedly infringing a patented process. Because of the specialized use of Walker's equipment, it is clear that Walker has a greater and somewhat different interest than existed in the *Aralac* case. Nonethe-

less, Walker's interest is no more than an economic interest, which brings it within the *Arglac* rationale. In the absence of a viable charge of infringement, Walker's interest is insufficient to permit Walker to Challenge FMC's patent.

Finally, Walker, citing *National Coupling Co.* v. *Press-Seal Gasket Corp.*, 7 Cir., 323 F. 2d 629 (1963), contends that when a patent owner asserts that customers of a manufacturer may possibly infringe a patent, an actual controversy between the patent owner and manufacturer exists sufficient to give jurisdiction in a declaratory judgment action.

National Coupling decided that, in a declaratory judgment action, where a defendant had publicly charged the plaintiff, in a letter to one of the plaintiff's customers, with infringement of a patent, the defendant could not forestall judicial determination by objecting to jurisdiction on the ground that the product of the alleged infringer fell within a statutorily excluded class of infringing articles, as defined in 35 U. S. C. A. § 271(c).[3] Jurisdiction for a declaratory judgment action existed there because of a viable charge of contributory infringement. The action of a patent owner in cautioning possible infringers and offering licenses to them, as in the instant case, is not the equivalent of the charge of infringement found in *National Coupling*. For that reason, *National Coupling* is distinguished from the case at bar.

The judgment of the district court appealed from herein is affirmed.

AFFIRMED.

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3. Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

SWYGERT, *Circuit Judge*, dissenting.

The majority opinion identifies the fundamental question in this appeal as "whether the patent owner has . . ., made viable charges of infringement." The majority then states that its consideration of the complaint reveals no allegation that FMC has charged Walker, "or any of Walker's customers, at any time since the Greensboro litigation, with any kind of infringement." I cannot agree.

The majority says that the several allegations of Walker's complaint relating to FMC's "licensing program" and to the Greensboro lawsuit do not embrace "viable charges" of infringement. I concede that this may be arguable; however, paragraph sixteen of the amended complaint states in part:

> Since the opinion of the Court of Appeals for the Fourth Circuit in *F. M. C. Corporation* v. *City of Greensboro* . . ., the defendant has continued to charge that use of plaintiff's "Gaslifter" digester stirring equipment infringes said Letters Patent No. 2,777,815.

I think that this is an allegation by Walker that FMC has charged it with contributory infringement. The complaint need not allege that the charge of infringement was addressed directly to Walker, nor need it allege that Walker's customers were told that Walker had committed acts of infringement. It is sufficient for Walker to allege that its customers were told that if they use Walker's equipment, they (the customers) will be guilty of infringement. In such circumstances, Walker, albeit indirectly, has been charged with contributory infringement and thus has a sufficient interest to seek relief under the Declaratory Judgment Act.

A very similar allegation was considered by this court in *National Coupling Co.* v. *Press-Seal Gasket Corp.*, 323 F. 2d 629 (7th Cir. 1963). There National Coupling sought

a declaratory judgment of noninfringement and invalidity against the owner of a patent for a gasket and pipe end construction for bell and spigot pipe. National Coupling's complaint alleged that the patentee had charged one of National Coupling's customers that if the customer used gaskets manufactured by National Coupling in the production of certain pipe, the customer would be guilty of infringement. We held there that such a charge by the patentee against a customer of National Coupling was also a charge of contributory infringement against National Coupling. "The import . . . [the patentee's statements] is that but for the use of National Coupling's gasket there would be no infringement. Thus, the charge of infringement is against National Coupling."

Although not a declaratory judgment action, another case that bears on the question here is *Electric Bleaching Gas Co.* v. *Paradon Eng'r Co.*, 12 F. 2d 511 (2d Cir.), *cert. denied*, 273 U. S. 728 (1926). There the owner of a process patent for the purification of water sued a manufacturer of a mechanical device that might be used and was ordinarily used for the purification of water in accordance with the patented process. The court held that the sale of this device for use in the process was a species of contributory infringement and upheld the patent owner's right of recovery.

Here Walker alleges that FMC is informing Walker's customers that if they use Walker's digester stirrers they, Walker's customers, will infringe FMC's process patent. Walker's complaint thus alleges a charge of infringement by FMC. The question of whether Walker's equipment could or could not in fact infringe FMC's process patent is irrelevant to the question of whether a charge of infringement has been made.

Since Walker alleges that it has been charged with

infringement by FMC, *Aralac, Inc.* v. *Hat Corp. of America,* 166 F. 2d 286 (3rd Cir. 1948), is not applicable. In *Aralac,* the court stated that "there has never been a charge of infringement made by defendant against plaintiff or any of plaintiff's customers or prospective customers by notice, threat or suit as to the sale or purchase of casein fiber or against casein fiber as such, but a claim that the purchasers of plaintiff's fibers were, by using the process encompassed by defendant's patents, performing an act of infringement." There the casein fiber manufactured by the plaintiff was only one of several ingredients which, when combined under the patented process, formed a new commodity. This is made clear by the following statement at page 293 in the opinion:

> Plaintiff has the right to have that which it lawfully produces freely bought and sold without restraint or interference. It is a right which attaches to its product, to a particular thing—as an article of commerce —and it continues only so long as the commodity to which the right applies retains its separate identity. If in the course of trade that commodity is combined with other things in the process of the manufacture of a new commodity, the trade right in the original part as an article of commerce is necessarily gone. So that if other persons become manufacturers on their own behalf, assembling the various elements and uniting them so as to produce hats or hat bodies, a new article, it is manifest plaintiff cannot by reason of its mere right to make and sell, and the fact of its having made and sold casein fibers to the manufacturers of the new article, satisfy the legal requirement that it has sufficient legal interest in any claim arising under the patent laws, enabling it by declaratory judgment to challenge the validity of the defendant's patent, where no charge of infringement has been made against the product sold by plaintiff but against a process with which plaintiff has had no connection.

In the instant case it is not claimed that the Walker equipment is a commodity (such as casein fibers or, for example, steel) that is "combined with other things in the process of the manufacture of a new commodity." Rather, according to the complaint, FMC has charged and is currently charging that the use of Walker's equipment infringes the patent. Stated differently, the charge is that the Walker equipment is the means for applying the patented process. For the foregoing reasons I cannot agree with the court's observation that Walker's complaint alleges no outstanding charges by FMC of infringement by Walker, and its holding that Walker does not have a sufficient legal interest to maintain this suit. I would reverse the dismissal order.

Order Denying Appellant's Petition for Rehearing.

Thursday, March 10, 1966.

Before Honorable John S. Hastings, Chief Judge, Honorable Roger J. Kiley, Circuit Judge, and Honorable Luther M. Swygert, Circuit Judge.

IT IS ORDERED that the petition for a rehearing of this cause be, and the same is hereby, DENIED.

Judge Swygert voted to grant the petition for rehearing.

Decision of the Trial Court (Oral).

P. App. 25-37.

(Filed Dec. 9, 1964).

The Court: Gentlemen, thank you for coming in. These files get thicker and thicker.

We have here for consideration today the defendant's motion to dismiss Count I of the amended complaint for lack of jurisdiction and also to dismiss Count II.

It appears that the Walker Process Equipment, Inc. brought this action against FMC Corporation in two counts. Count I prays for a declaratory judgment that FMC's patent number 2,777,815 is invalid, unenforceable and not infringed by processes in which Walker's equipment is used.

Count II prays for an injunction and damages resulting from FMC's alleged acts which amount to unfair competition.

Walker amended its original complaint in response to an earlier motion by FMC to dismiss for lack of a justiciable controversy over which this Court has jurisdiction. FMC now moves to dismiss the amended complaint on several grounds. FMC contends Count I should be dismissed because (1) it fails to assert a justiciable controversy,—the same basis asserted in the earlier motion; and, (2) the assertion of non-infringement presents only a hypothetical question.

In the alternative, FMC contends Count I should be dismissed on the issue of validity of the patent since validity of the patent cannot be contested under the doctrine of res judicata.

Count II, it is claimed, should be dismissed because it fails to state a claim upon which relief can be granted. In the alternative, the doctrine of res judicata precludes Walker from bringing an action for unfair competition.

In support of its motions, FMC has submitted admissions and interrogatories to which Walker has filed answers. The motion to dismiss for lack of jurisdiction is not defeated by the filing of these documents. The Court's attention may be directed to these documents in such a motion. See 2 Moore's Federal Practice, Paragraphs 12.09(2), (3) and 12.14 at page 2248 and 2266, respectively.

Jurisdiction over Count I, praying for the declaratory

judgment, is sought under 28 U.S.C.A. Section 1338, (a), which confers jurisdiction on the district courts in patent cases, and 28 U.S.C.A. Section 2201 which authorizes the bringing of an action for declaratory judgment.

Walker manufactures and sells gaslifter digester stirrers, which are used by its customers in processes which are used in the digestion of sewage. FMC is a competitor of Walker and, in addition, FMC operates under patent No. 2,777,815 which allegedly covers a method of digesting sewage sludge. Sludge is a mixture of water and solid material which remains after much of the water has been removed from sewage entering a sewage treatment plant. For the purpose of the instant motions, it is not necessary to give a technical explanation of the patented process. It is sufficient to note that Walker's gaslifter digester stirrers are used by Walker's customers, and not by Walker, in processes allegedly covered by FMC's patent.

The amended complaint alleges that FMC notifies customers and potential customers of Walker that they will infringe FMC's patent by using Walker's gaslifter digester stirrers in their processes which digest sewage sludge if they do not obtain licenses from FMC.

The amended complaint goes on to say that as a result of these acts by FMC, some of Walker's prospective customers have refused to purchase Walker's gaslifter digester stirrers and virtually all customers which do make purchases require Walker to furnish "hold harmless" guaranties to defend them against any infringement suits which FMC might bring.

In 1960, FMC commenced a suit against one of Walker's customers, the City of Greensboro, North Carolina, and Walker, charging the City of Greensboro with infringement, and Walker with actively inducing infringement of patent No. 2,777,815. *FMC Corporation* v. *City of Greens-*

boro, 208 Fed. Supp. 494, Middle District of North Carolina, reversed in 326 Federal 2d 581, Fourth Circuit, 1964. Although the action was dismissed as to Walker for lack of jurisdiction, pursuant to a "hold harmless" agreement with the City of Greensboro, Walker defended the suit and paid the costs. The district court held the FMC patent valid and infringed. The Court of Appeals reversed, holding that the patent was not infringed by the Greensboro system of digesting sludge. Walker further contends in its amended complaint that the question of validity was expressly left open.

Since the Court of Appeals decision, Walker alleges, FMC has continued its prior policies of attempting to dissuade customers from buying Walker's gaslifter digester stirrers, pointing out that the Greensboro decision did not affect the validity of the patent and that the holding of non-infringement applied only to Greensboro's specific system.

Section 2201 of Title 28 provides in part that:

> "In the case of actual controversy within its jurisdiction, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration whether or not further relief is or could be sought."

FMC contends that Walker lacks the necessary "interest" to bring this declaratory judgment action, and that, therefore, this court lacks jurisdiction of the subject matter. FMC relies primarily on *Aralac Inc.* v. *Hat Corp. of America,* 166 Fed. 2d 286, Third Circuit, 1948. The Third Circuit held that an economic interest in a patent is not sufficient to give a party the requisite "legal interest" to bring an action for a declaratory judgment. One seeking a declaratory judgment of non-infringement and invalidity of a patent must have been charged by the patentee

with infringing or contributorily infringing the patent. Factually, the case is very similar to the case at bar. A fiber manufacturer brought suit for declaratory judgment of invalidity of the defendant's patent. The complaint alleged that defendant asserted plaintiff's customers infringed defendant's patent. The patent did not cover the fibers made by the plaintiff, but, rather, the process used by plaintiff's customers to combine the fibers with other fibers to make hats. Defendant never accused plaintiff with directly or contributorily infringing defendant's patent. Notice of the alleged infringement was given to plaintiff's customers, thereby causng plaintiff to suffer financial loss in the form of reduced sales. Similarly, in the instant case, FMC's patent only covers a process of digesting sludge. FMC's patent does not cover the gaslifter digester stirrers made by Walker and used by its customers in their sludge digestion systems. This Aralac doctrine is approved by Professor Moore in his treatise. 6 Moore's Federal Practice, paragraph 57.15 at 3087.

An understanding of the value of declaratory actions in the field of patents will help explain the reasoning behind Aralac. Section 271(a), (b) and (c) of Title 35 provides:

> "Section 271. Infringement of patent.
>
> "(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> "(b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> "(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

Prior to the enactment of the Declaratory Judgment Act, a party accused of patent infringement was without a remedy to obtain a judicial determination of the merits of the accusation if the patentee refused to bring suit for the alleged infringement. An accused infringer could thus be made subject to harassment. The Declaratory Judgment Act eliminates this inequity. It enables the accused to secure a judicial determination of the charge of infringement without havng to wait for the patentee to institute proceedings. See 6 Moore's Federal Practice, paragraph 57.20 at 3114, for a more complete discussion of the Declaratory Judgment Act and patents.

The Act, however, created no new rights; it merely offers a new remedy to adjudicate existing rights. Aralac, supra at 291, and cases cited therein. Since the patentee has no cause of action against one who is not infringing—directly or contributorily—his patent, the Aralac case precludes suing a patentee unless the party suing is accused of such conduct. The plaintiff in Aralac was not so accused and thus could not maintain the action for declaratory judgment.

There are three facts, however, which Walker contends distinguish Aralac from the instant case and makes it inapposite:

(1) In Aralac, there was no suggestion that the plaintiff had indemnity agreements with its customers obligating it to defend and indemnify them from suits brought against them under the patent; and

(2) In Aralac, the patentee had never sued the plaintiff nor made any charge suggesting liability of the plaintiff to the patentee; and

(3) The product of the plaintiff in Aralac was a staple suitable for substantial noninfringing use.

In the first distinction Walker contends that the in-

demnity agreements between it and some of its customers give it a sufficient "interest" in the patent to maintain an action for a declaratory judgment. Although there does not appear to be any authority on this point, this court takes the view that the agreements do not raise the necessary "interest." For Walker to have the requisite "interest" the Aralac doctrine requires that a patentee accuse the plaintiff with infringing, directly or contributorily, its patent. The agreements merely increase Walker's economic interest in the outcome of any suit which FMC might bring against Walker's customers for patent infringement by the customers.

The second distinction relied on by Walker relates to the suit by FMC against the City of Greensboro. In that suit FMC charged Walker with actively inducing the infringement by the City. The action against Walker, as previously noted, was dismissed for lack of jurisdiction. Walker also contends that FMC, in its brief in opposition to Walker's motion to dismiss for lack of jurisdiction, charged Walker with contributorily infringing its patent. On the basis of these prior charges of active inducement and contributory infringement, Walker contends that it is entitled to maintain this declaratory judgment action.

Although contributory infringement and the active inducement of infringement are violations of the patent laws, 35 U. S. C. A., Section 271(b) there must be a direct infringement for an action for such indirect infringements to lie. *ARO Manufacturing Co.* v. *Convertible Top Co.*, 365 U. S. 336, 341, 1961, cited by FMC, no contributory infringement without direct infringement; *Hautau* v. *Kearney & Trecker Corp.*, 179 Fed. Supp. 490, Eastern Division of Michigan, 1959, no active inducement without direct infringement. Both charges in the prior suit specificially related to the direct infringement asserted against the City of Greensboro. That is, today, the only allega-

tion contained in Walker's amended complaint is that Walker was accused of active inducement in the Greensboro case. See amended complaints paragraph 7 and 10. Paragraph 7 of the amended complaint is not completely clear as to whether Walker was allegedly accused of active inducement in instances other than those alleged in the Greensboro suit. Since the arguments presented in Walker's brief in opposition to this motion are all directed to the Greensboro suit, it seems clear that the allegations of paragraph 7 are intended to be restricted to the Greensboro controversy. See page 4 of Walker's brief in opposition to FMC's motions.

Inasmuch as the court in Greensboro held that FMC's patent was not directly infringed by the City of Greensboro, there can be no further action against Walker for contributorily infringing, or actively inducing infringement, in connection with its customer, the City of Greensboro. Thus, after the decision in Greensboro, Walker lost its "interest" in the FMC patent.

We need not decide, and we expressly reserve a decision on, FMC's contention that a charge of active inducement, unlike a charge of contributory infringement, will not support a suit for declaratory judgment.

The third alleged distinction between the instant case and the Aralac case is that the fiber sold by the plaintiff in Aralac was a staple while the gaslifter digester stirrers sold by Walker are not. Section 271(c) of Title 35, as previously pointed out, provide that whoever sells a staple article or commodity of commerce suitable for substantial non-infringing use shall not be liable as a contributory infringer. Thus, Walker is attempting to show that the result reached in Aralac was based on the premise that there could not have been any contributory infringement. FMC, on the other hand, argues that Walker's products are staples.

The Aralac case, however, seems to have been misinterpreted. The court did not hold that the fiber was a staple commodity. The court stated, "We assume arguendo that casein fibers are a standard article of commerce capable of various uses." (Page 294-95.)

The question did not have to be decided because the court based its holding on the fact that the defendant never charged the plaintiff with direct infringement or contributory infringement of the defendant's patent. (Page 293.)

Inasmuch as the only charges of indirect infringement made against Walker were in connection with the Greensboro case, the question of whether gaslifter digester stirrers are staples within the meaning of Section 271(c) need not be decided. Indeed, it is doubtful whether the question could be decided on the present motion.

Walker further contends, however, that even if the Aralac case is applicable to the facts in the instant case, it is not the law in this circuit. *Stratton* v. *Thornley,* 94 U. S. P. Q. 135, Northern District of Illinois, 1951, a decision by Judge Barnes, is cited as authority.

I might parenthetically say that I always paid a lot of attention to Judge Barnes' decisions. I think he was the best patent judge that sat here during my professional years, and that goes back many years.

In Stratton the plaintiff was accused of infringing defendant's patent. The issue resolved in Aralac and presently before this Court of whether the plaintiff has a sufficient "interest" to maintain a declaratory action when its customers are charged with infringement was not considered. The case is not in point.

Mr. Clerk, FMC's motion to dismiss Count I for lack of jurisdiction is granted. The other two grounds for dismissing Count I will not be considered.

Count II of the amended complaint containing the claim of unfair competition must also be dismissed for lack of jurisdiction, and I do dismiss it for that reason. Although FMC has not objected and is not objecting to the jurisdiction of the Court over Count II, it is encumbent upon this Court to act sua sponte in such a situation.

Walker claims this Court obtained jurisdiction over the second count by virtue of 28 U. S. C. A. 1332—that is to say, the diversity of citizenship. The amended complaint alleges the amount in controversy to exceed $10,000, and that Walker is an Illinois corporation having its principal place of business in Illinois. FMC, the amended complaint avers, is a Delaware corporation, having a place of business in Illinois and regularly doing business here. Absent from the amended complaint and the original complaint is an allegation as to the location of FMC's principal place of business.

Section 1332(c) of Title 28 provides that a corporation shall be deemed a citizen of any state by which it has been incorporated and of the state where it has its principal place of business. Thus, for purposes of diversity jurisdiction, a complaint must allege the principal place of business and place of incorporation for each corporate party to the action. Walker's amended complaint is defective in this respect. Although Walker need not allege in which state FMC has its principal place of business, there must be at least an allegation that FMC's principal place of business is not in Illinois, the state in which Walker is deemed to be a citizen. See 2 Moore's Federal Practice, Section 8.10 at 1657.

Section 1338 of Title 28 also fails to confer jurisdiction on this Court over Count II. That section provides:

> "(a) The district courts shall have original jurisdiction of any civil action arising under any act of

> Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyrights cases.
>
> "(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade-mark laws."

By virtue of these provisions, the district courts are granted jurisdiction over an action for a declaratory judgment of the invalidity and noninfringement of a patent. E.G., *General Steel Products Co.* v. *Lorenz,* 204 Fed. Supp. 518, Southern District of Florida, 1962; *Ostow & Jacobs, Inc.* v. *Morgan-Jones, Inc.,* 180 Fed. Supp. 38, Southern District of New York, 1959, affirmed other issues on reargument, 181 Fed. Supp. 208, Southern District of New York, 1961. The patent claim, however, is not "substantial" within the meaning of subsection (b) inasmuch as Walker lacks a sufficient "interest" in FMC's patent to assert the claim. That is, we hold that a claim for a declaratory judgment is not "substantial" if the plaintiff clearly lacks an "interest" in the defendant's patent. The patent claim, therefore, cannot support jurisdicion over the unfair competition claim.

Although there does not appear to be any authority precisely in point, such a conclusion comports with the purpose of Section 1338(b). The Revisor's Notes to Section 1338(b), 28 U. S. C. A. Section 1138 at 108, 1962, state that:

> "Subsection (b) is added and is intended to avoid 'piecemeal' litigation to enforce common-law and statutory copyright, patent, and trade-mark rights by specifically permitting such enforcement in a single civil action in the district court."

It would not serve this purpose to take jurisdiction over the common law claim where we are barred from adjudicating the federal claim.

Since Walker may be able to cure the defect in its amended complaint with respect to the allegations of diversity jurisdiction, leave is granted to Walker to amend its complaint within ten days from date, the defendant to answer the second amended complaint within ten days thereafter.

Defendant's motion to dismiss Count I of the amended complaint for lack of jurisdiction is granted.

I don't know which of you have prevailed.

Mr. Goldsmith: We prevailed, your Honor, and apart from that we appreciate the Court's careful consideration of this matter.

The Court: Perhaps after my remarks you might find they will serve to help you lawyers to resolve your difficulties. I don't know whether they can be resolved or not. Not knowing the diversity facts, I don't know whether a valid second count can be filed.

Mr. Goldsmith: Well—

The Court: Some of the patent lawyers don't know about it. I think it was in 1958 there was an amendment to the diversity statute. It was good for the district court judges, we got rid of a lot of grocery chain suits here, Sears Roebuck and others.

Mr. Webb: May I ask your Honor one question?

The Court: Yes.

Mr. Webb: May we in our second amended complaint file our first count again and try to cure that?

The Court: Oh, no. That has been dismissed. If you did counsel would be under the obligation of pleading to

it and that would impose an additional burden on all of us. I have expressed my views about it and my order in this respect is reviewable.

My answer to that question is that you should not.

Mr. Webb: I see.

* * * * *